MINNESOTA STATE RETIREMENT SYSTEM
FINANCIAL AND COMPLIANCE AUDIT
FOR THE YEAR ENDED JUNE 30, 1987

DECEMBER 1987

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

88-7

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STATE OF MINNESOTA
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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Phillip J. Riveness, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

and

Mr. Paul L. Groschen, Executive Director
Minnesota State Retirement System

Audit Scope

We have completed a financial and compliance audit of the Minnesota State Retirement System for the year ended June 30, 1987. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on November 20, 1987.

The objectives of the audit were to:

- express an opinion on the financial statements of the Minnesota State Retirement System (MSRS) for the year ended June 30, 1987;
- study and evaluate major MSRS internal accounting control systems, including a review of annuity payments and other withdrawals, receipts including contributions, payroll and administrative disbursements, fixed assets, and imprest cash;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minnesota Statute Chapters 3A, 352, 352B, 352C, 352D, 356, and 490, and other finance-related laws and regulations; and
- determine the status of prior audit recommendations.

Management Responsibilities

The management of MSRS is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of MSRS is also responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by MSRS. The purpose of our testing of transactions was to obtain reasonable assurance that MSRS had, in all material respects, administered their programs in compliance with applicable laws and regulations.

Conclusions

We have issued an unqualified opinion on the MSRS financial statements for the year ended June 30, 1987. Our audit opinion, dated November 20, 1987, will be included within the 1987 MSRS Comprehensive Annual Report.

In our opinion, the MSRS system of internal accounting control in effect on June 30, 1987, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

In our opinion, for the year ended June 30, 1987, MSRS administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

Included in this report is a summary of the progress made on all audit recommendations developed during our audit last year.

We would like to thank the Minnesota State Retirement System staff for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

December 28, 1987

I. STATUS OF PRIOR AUDIT RECOMMENDATIONS AND PROGRESS TOWARD IMPLEMENTATION

MSRS management did not inform certain past members of the unclassified retirement plan of their eligibility to receive a refund of contributions.

1. MSRS should inform individuals who, based on revised Minn. Stat. Section 352D.05, are eligible to receive a refund from the unclassified retirement plan.

RECOMMENDATION WITHDRAWN. The 1987 Legislature changed Minnesota Statute 352D.05 to restrict the eligibility for refunds from the unclassified retirement plan.

The allocation of administrative costs among the retirement plans managed by MSRS needs to be refined.

2. To ensure that each retirement plan bears an equitable portion of total MSRS administrative costs, MSRS should:

   - determine that the new investment withdrawal system is accurately reporting unclassified retirement plan administrative costs;
   - accurately accrue administrative costs in the appropriate funds, and;
   - directly charge investment fees to the appropriate retirement plan.

RECOMMENDATION IMPLEMENTED. In fiscal year 1987, MSRS equitably apportioned administrative costs among the retirement plans.